

MINUTES OF THE CITY COUNCIL  
CITY OF AUSTIN, TEXAS  
Special Called Council Meeting  
March 4, 1980  
12:00 Noon  
Council Chambers  
301 West Second Street

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The meeting was called to order with Mayor McClellan presiding.

Roll Call:

Present: Mayor McClellan, Councilmembers Goodman, Himmelblau,  
Mayor Pro Tem Mullen, Councilmembers Snell, Trevino

Absent: Councilmember Cooke

Mayor McClellan opened the Special Called Meeting of the Council, scheduled for 12:00 noon, stating the purpose of the meeting was to hear a report on Gibbs and Hill, Inc. Review and Assessment of the Brown and Root Baseline Cost and Schedule of the South Texas Project.

TRANSCRIPT OF THE MEETING FOLLOWS:

to attain the schedule that Brown and Root had recommended. Now, I think one thing that is important, is we need to recognize that Brown and Root needs to have an opportunity to review this study, determine whether they need to change their base line or not, and then the project needs to make a decision with respect to what schedule will be adopted and what cost will be adopted, and a very important consideration is the setting of the schedule and the setting of the cost so it is an attainable goal but it is a tight goal. If you set it too loose, the job will lag more than it should. If you set the cost too high, unfortunately there is a tendency to absorb all of that cost. So the management committee needs to consider these aspects; they need to get Brown and Root's latest input, and then if the management committee needs to come down on a recommendation with respect to the project.

On page 3 of the memorandum to the Manager from my office is a tabulation that summarizes what I have just enumerated. If you look at the bottom of page 3, there is a tabulation that indicates the Brown and Root estimate and the Gibbs and Hill estimate, and it indicates that the base line cost for both is 2.441. That the allowance for Brown and Root is 124 and for Gibbs and Hill it is 260 million. That the reserve for Brown and Root is 155 and for Gibbs and Hill is 155 million. The schedule under the Brown and Root base line it is February of 84, and under Gibbs and Hill it is August of 84. On Unit 2 the schedule under Brown and Root is February of 86 and under Gibbs and Hill it is August of 86.

Now a very important item if you will look at the next page is the fact that Gibbs and Hill qualified their acceptance of the base line upon proper project management and control, and the discussion under results is a tabulation of what has been done in order to strengthen project management and controls over about the last 18 months. And if you will notice there, there are 7 items enumerated; there are others, but those are the key items. Brown and Root's top management has given that project a great deal of attention as a result of pressures from the owners and pressures from Houston Light and Power, and I feel confident that they are placing now at the disposal of that project the very best personnel resources they can get their hands on from within and from without Brown and Root. The project over the last 18 months has undergone a reorganization in the areas of engineering, construction, control, and materials management. There has been an aggressive top management and supervisory recruiting and staffing program underway. The corporate officer in charge of the project has been replaced; the project manager has been replaced; the engineering manager has been replaced; the site manager has been replaced, in accordance with the new organization in the project and in order to get the very best resources that are available concentrating on that project.

Then implementation of thorough project management monthly quantification and production goals and performance has been implemented, and that is much more in depth than it previously had been and will provide an excellent monitoring and performance of checking device. In addition to that, outside consulting assistance has been provided by both the owners and by Brown and Root in order to assist in the organization and improvements in the project, and then finally much closer attention on the part of top management of the owners..from all of the participants in the project, closer attention from the management committee, and closer attention from participants of..through the sub-committee structure in the area of audit, technical performance and things of that sort on the part of the owners as has been implemented now. Now about 80 to 90 % of these key areas have been implemented. The proof of the pudding

Report on Gibbs and Hill, Inc. Review and Assessment of the Brown & Root  
Baseline Cost and Schedule of the South Texas Project.

MAYOR: ..the Electric Utility Commission to join us, and I am pleased that there are so many of you here this morning. .... Peck, Larry, Joann, Sam, Rich, and you all are going to receive the information at the same time Council does, and in keeping with the commitment I made some time ago, any time I get any word at all on South Texas, we share it at the same time Council does publicly. And just in the way of a refresher, and kind of a background.. Last August, I kind of crashed a party in San Antonio to get some information on the South Texas Project. Again, we had had indications that that was preliminary information, but even preliminary we wanted to have it public. As you all may recall..Mr. Hancock, I know you sent a memo to us August 28, following that meeting on the 27th, or was that meeting on the 28th..27th or 28th..27th, that's what my notes say, and at that time it was stressed that the data base figure of 2.4 billion dollars was preliminary. We had following that with a rate case filing with the Public Utility Commission, Houston Lighting and Power filed a figure of 2.7 billion, indicating a base line estimate..that's September 27th I believe..base line estimate of 2.4 billion on the plant with an unallocated reserve, showing they are carrying it up to 2.7 billion. We stressed and reiterated following that, and at the time of, and following that September..that late August meeting that we thought we should undertake some independent audits, and vigorously pursue this through the management committee for the purpose of determining the ability of the project managers to deliver accurate cost and scheduling information.. By the way I mention the cost figures that were given at that time, the scheduling figures at that time. You had a slippage.. you had Unit 1 February 84, or Commercial Classification Unit 2 February 86. That was in the figure that we were given then.

Again, we felt like as partners in the project, that we are entitled to a real relationship of trust and confidence, and we are pursuing those independent audits to provide us..see if we are being provided in a timely manner accurate information.. With those comments, Mr. Hancock, we will let you tell us what the Gibbs and Hill people are finding, and I have tried to see if they could come join us today, and they could not, but I would like to get them in here with Council concurrence, as soon as possible.

MR. R. L. HANCOCK: Mayor you indicated you wanted it as soon as we had it available, and if we can impose on your time just a little bit, it will be out of the Xerox machine and be down here just a moment. We have to make copies of the memorandum that transmits the Gibbs and Hill Report, and they were running those off as I left.

MAYOR: Meanwhile..since I don't read well, while I listen anyway, why don't you tell us what that says.

HANCOCK: What the Gibbs and Hill report says? All right. Let me just back up for a moment and review some of the facts that you previously covered, and some other facts that were not covered at that time. In September, I believe it was the Council directed the Manager to take certain actions with respect to conducting audits, the employment of outside engineers to review some of the activity in the project, and a general overall tightening up of Austin's participation in that project. As a result of that, Gibbs and Hill was employed

to do an outside engineering assessment, and in particular to do an assessment of the base line data as developed by Brown and Root, and an assessment of the reserves and allowances that Brown and Root recommended in October. In September, I believe it was, the accounting firm of Coopers and Leibraun was employed to do a in-depth outside audit of the project from a financial point of view and from a costing point of view. Coopers and Leibraun is now on board; the report that you will receive will be the assessment of Gibbs and Hill of Brown & Root's base line data, and allowance in reserve quantification.

MAYOR: It is my understanding that the Coopers and Leibraun financial audit is to be ready in May, but we possibly might have some preliminary figures to look at 30 days from now. Is that correct?

HANCOCK: They had indicated..originally they had indicated a possible June date for completion of their 79 financial audit. They indicated at our last meeting that they thought perhaps that would be available in May. They indicated that probably in the next 30 days, or possibly 60 days, their management letter that is associated with that financial audit, would be available.

Now with respect to the staff participation, there has been an increase in the participants..that is the four owners in the project..participation in the project..a very dramatic increase in that area. The Manager directed me to spend more of my time on the project. I am currently spending about 30% of my time on the project, and would anticipate spending about that level at least until probably June. Other members of the management committee are also spending a great deal of time on the project. I do a site visit probably twice a month, and we have at least weekly meetings in Houston. Austin is administering the cost accounting activity at Coopers Leibran, with respect to the determination of cost in the project, and I am also heavily involved in that area, which takes up a good bit of that time.

Gibbs and Hill was employed formally in November or December, I believe, but they had been on the project about a month prior to that. We had to work out some arrangements with respect to their cost and their scope of work. At that time, they indicated to us that they thought they could complete the base line assessment in February. If you recall when we received the preliminary information in San Antonio from Brown and Root, we indicated that in fact that it was preliminary, that it did not include any costing allowance, and that we anticipated being able to check the validity of that information, come down on that cost and allowance probably some time in the early part of the year, and I think the implication was that probably would be in January. Gibbs and Hill could not conclude their activity in January..did target February. I guess we were fortunate that this was leap year and we had 29 days in the year, because we received the report last Friday in Houston which was the 29th. We did not have enough copies at that time to make the report available to the Council, and so..the first thing Monday morning, the print shop began the duplication of those reports, and we currently have those reports now.

I suppose it would be appropriate to pass those reports out now and then for me to speak to a summarization of the report. One thing I would like to make clear..this is Gibbs and Hill's report. The only reason I am presenting a summary of the report, is simply because on this short time frame we could not get them available in Austin. They have expressed their openness to meeting with the City Council, if the Council wished that, and we can set that up sometime..

MAYOR: I would appreciate if you would speak specifically to the cost and the scheduling on that project.

HANCOCK: Gibbs and Hill analyzed the base line. Their analysis of the base line was (1) that the work on the base line was well documented, it was professional, it was complete, and that involved an analysis of the four volume documents. The bottom line for that is that they felt that the base line in the project, the 2.441 recommended by Brown and Root, was acceptable. They concurred with that estimate on the base line. They qualified that concurrence however, on the basis of sound project management and control over the remaining course of the project, and I will speak to that a little bit later.

They indicated that the Schedule on Unit 1 in their view was marginal. They recommended on Unit 1 a six-month schedule addition in order to provide float, and in order to address a very demanding quantity..monthly quantity installation rate particularly in the area of electrical and piping.

On Unit 2 they recommended a schedule addition of six months, predicated on the lifting of the manpower level in the project so that piping and electrical activities could be initiated earlier than had originally been planned, and the manpower ceiling on the project had precluded that early initiation in Brown and Root's original planning.

They further recommended a number of construction areas that needed looking at that I have not enumerated in the memorandum that you have but are included in the Gibbs and Hill report. They analyzed the areas of allowance and reserve that Brown and Root had suggested. And those areas need a little definition. Allowance is an allowance for changes in scope. It anticipates things like schedule changes, changes in plant configuration that is within the original plan, and..

MAYOR: Question. Schedule changes..are you talking about like speeding it up? What do you mean when you say schedule changes?

HANCOCK: The six months schedule addition. The allowance is provided to accommodate the costing associated with that. The reserve is to address those areas which are beyond the scope of the project. Events such as regulatory changes that were not included in the original scope; force majeure activities that are totally beyond the control of the project; and ....., things of that sort. Brown and Root had recommended \$155 million for the reserve. Gibbs and Hill concurred with that, because that is a very difficult area to get any handle on at all, because it is all totally beyond the owner's control. Brown and Root had recommended \$124 million in the area of allowance. Now that is in-scope changes. Gibbs and Hill felt like in view of the required six-month schedule change, that that ought to be increased to a total of \$260 million, a portion of which would be anticipated for changes in the schedule the six-months schedule change on the two units, the application of shift work to the project, and judicious use of overtime in order to attract and retain skilled craftsmen on the project, because they are beginning to enter into the area now, where skilled craftsmen are..welders, pipe fitters, electricians, of that sort are in demand. Could I see a copy of that summary. No I need the memorandum.

I think a very fundamental portion of Gibbs and Hills recommendation is the fact that the project will need to utilize shift work in order to attain the schedule that Gibbs and Hill recommended that has some float in it, and certainly

however, is in the performance, and with the quantitative production accounting on a monthly basis now, we will be able to measure that performance over probably the next 4 to 8 months and be able to determine rather quickly if that management and if that control on that project is going to be able to perform in accordance with that base line.

I need to emphasize that successful completion of this project is really vital..not only to the people of Austin, but also to the people in all of south Texas. It is a significant portion of all of the electrical energy production in the 80's from the area of Austin south to the Rio Grande. We have done a break even study with respect to the costing, and that latest break even study predicated on the option of replacing the project with a lignite fuel unit, predicated on our best estimates of lignite cost and plant cost, is now at 3.4 billion dollars break even. And that says the project could move to 3.4 billion dollars and still be economically attractive from Austin's point of view. That number will change for other utilities depending on their unique characteristics, but for Austin that is the break even number, and in terms of our 16% participation, that is 544 million dollars for Austin's share.

Now based on Brown and Roots total estimate of 2.72 billion for the project, Austin's share would be 435 million dollars, and based on Gibbs and Hill's estimate of 2.86 billion, Austin's 16% share would be 457 million, both of which are considerably below that break even cost. Our current bond funding consists of 376.8 million dollars, including the fuel cost that was provided.

And I would like to conclude by reiterating that the management committee now has to consider these and come down on a project schedule and a project cost that is attainable but is tight. We need to set high goals, high hurdles in order to minimize the cost and speed up the project as much as possible and I would like to state once again that Gibbs and Hill is available to discuss the detail in their report, and I certainly only summarized it with the Council at some time that is mutually agreeable.

MAYOR: What I would like to do..by the way I wanted to state Mr. Cooke would have been here, but he had a long time speaking commitment right now. He is interested, he is concerned, but that is why he is not here right this moment. I would like to get with Sam and get our corrected calendars together and try to get the Gibbs and Hill people in here for a joint work session with the Utility Commission..with the Council and the Utility Commission. I would like to do that right away. I will have to check with Gibbs and Hill folks, and Sam with you all, and check with Council calendars..but perhaps by next week or at least the next..sometime in the next couple of weeks, get them in here for a joint session with the Council, and with the Utility Commission. At that time I would like..or even before that time, I would like for you to kind of log for us in writing, please, kind of a chronology of where we have come, particularly since September until now. And like that..for that meeting. I guess what this is..here in audit it doesn't tell us..perhaps the Coopers and Liebran..will the Coopers and Liebran audit speak to how long we have known what these more accurate figures are in that type of thing. What this is doing, basically, they have kind of verified that late August, September base line figure with a noting of..they have a 6-months more slippage there on that unit 1. They have increased the reserve by about 100 million..I guess the reserve and the allowances part of it, but I also want to glean from these independent audits that we are doing, and as

I said, one of the reasons that we did this was to find out, not only do we have accurate cost and scheduling information, but how long has that been known..how should it be known..have we been getting that information in a timely fashion. Who will speak to that, will Coopers and Liebran audit speak to that?

HANCOCK: I really don't think Coopers and Liebran will. Their audits are in the area of financial audits and cost audits.

MAYOR: Can Gibbs and Hill tell us how long and at what point they have known what this project is going to cost..can they tell how long Brown and Root..or Houston Lighting and Power's project manager has known what this project is going to cost?

HANCOCK: I don't know that Gibbs and Hill can. Probably the people who can speak more directly to that are Houston and Brown and Root.

MAYOR: Well, wait a minute..

DAVIDSON: Let me make a comment here. I think some of what the Mayor may be inquiring about, Mr. Hancock, has to do with the work being done by the special legal committee of the South Texas Project, some of which is probably ultimately executive session..executive material pertaining to potential litigation, and that committee, Mayor, I think is assembling adequate information so that the project participants will be able to make whatever decisions ultimately are necessary.

MAYOR: It is my understanding..it was my understanding that one of the reasons we took in after the independent audit was so we could find out how long and at what point we need..what was happening on scheduling, what was happening on costs. And that's one thing I am going to ask Gibbs and Hill people when they come here for that work session. I want to talk with them about..in their monitoring..you know, when did they..when was it determined by Brown and Root, or when did they determine that the project was costing so much or such and such schedule, and I don't know how the legal committee can speak to that without some information from those who are doing the audit, so I am a little confused on..

DAVIDSON: I am saying that the Legal committee is in the process of assembling all kinds of information as well as information being compiled by a separate audit committee. And it is my understanding that the records of both Brown and Root and Houston Lighting and Power have been totally open to both these committees, so that we will be able to answer whatever questions the project participants might have.

MAYOR: Okay, well, that is certainly going to be some of the questions of where I am coming from. I want you to know that, and I want the Gibbs and Hill people to know that. And I also want to see for that joint meeting besides as much back up information we can have and in writing what is the current since September, and what type of information we can expect. I would also like to see all the back up material on the break even cost on the project on the 3.4 billion, and also some estimates..I know we got a memorandum last week which we had heard indication of before on Brownsville being interested in 50 megawatts of the South Texas Project. What is that projected to cost..50 megawatts?

HANCOCK: Well, let's say, at..I don't have that information..but I can get it.

MAYOR: I would like that for the work session.

TREVINO: R. L., the last page of your memo, the figures according to Brown and Root..their estimate of 2.72 billion and the Gibbs and Hill estimate of 2.86 billion, does that also include fuel costs?

HANCOCK: No, that's no fuel.

TREVINO: But then you have the figure, and the cost..the bond funded for Austin at 376.8 million including fuel cost.

HANCOCK: Fuel is 36.8 million off that 376.8 billion.

TREVINO: So..

MAYOR: Which was how much of that initial fuel, does that 36.8 retain?

HANCOCK: Well, a portion of that..total fuel cost was if I recall correctly, somewhat in the order of 52 million. A portion of that was paid from current funds. Another portion was..no, a portion was scheduled in the last bond..in the January 79 bond election..in April 1979 bond election..a portion ..

MAYOR: My question is how much does that cover in fuel?

HANCOCK: That covers the initial load in both units and as best we can determine at this point in time, a cash flow for fuel up to commercial operation date.

TREVINO: Could we also get the information about how much fuel costs.. have we included in the ..... that you called here for Austin, could we also get an estimate how much it is going to cost for the total ..... we can make a..

HANCOCK: You mean on Austin's financial obligation predicated on the Brown Root estimate and Gibbs and Hill's estimate?

TREVINO: Yes.

HANCOCK: Yes, we can do that.

GOODMAN: To get down to the heart of that matter, just from my addition and subtraction here, I calculate that according to the 435 million dollar estimate, that we would..well, on both estimates, we are going to owe somewhere in the vicinity of 95 million to 117 million dollars additionally for our 16% share.

MAYOR: What did you say, Richard?

GOODMAN: That it is going to cost us in the vicinity of 95 million to 117 million additionally.. if you take out the 36 million for fuel, we have 340 million authorized.

MAYOR: If you leave in the fuel, it is 81.

GOODMAN: What did you say?



MAYOR: Also, I want for that work session, R. L..

GOODMAN: 117 million..I am just..

MAYOR: Besides the cost figures on what that 50 megawatt that Brownsville is interested in, would cost. I would also like to see a schedule of how long our..I think it is..I have in my head that we can make payments until somewhere in 81. I want to know how long we can make timely payments with our bonding authority on that project?

HANCOCK: We would be happy to do that. But I believe that number is early 83, somewhere in that period.

GOODMAN: So when..at a very minimum, I would think we would get a recommendation from our staff, Dan, on when it is prudent to have a bond election. I am sure we wouldn't want to postpone this until the very last..

MAYOR: And I think you need, Richard, not to just look at additional bonding authority as the only alternative. That's why..

GOODMAN: Absolutely, that's my last alternative..

MAYOR: And of course, if Brownsville with its 50 megawatts, that too, would take a referendum of sorts, to sell that 50 megawatts, but that's why I think we need to get all those cost figures.

GOODMAN: In retrospect, it sure would have been easier, probably more appropriate for needs, if we had retained that initial 161 million dollars that was on the February ballot..proposition 14.

HANCOCK: May I make a comment about the Austin..

MULLEN: I told you so..

GOODMAN: I am saying that 161 million is a whole lot better than 500 million.

HANCOCK: There are really two major audit activities being conducted on the project, and they are difficult to separate. One is a normal financial audit which covers the year 1979. Coopers and Liebran is doing that, and that is a much more in depth audit than is normal, and a part of that is to look into some of these areas that you have discussed here. But in addition to that there is also an audit under way that relates to what the actual cost of.. for some of the work performed on the project is, a determination of what that cost is. Coopers and Liebran is participating in that, and Gibbs and Hill is assisting in some of that determination. Now that is much more in depth and it provides audit access beyond that that is provided under the contractual arrangement. And those two audits need to be kept in mind, and recognizing that they are somewhat interrelated, but they are really two different areas also.

MAYOR: Well, we will proceed very quickly to set up that work session for detailed study, and will get back to Council, and Sam, with you on that.. and I guess..see how do we say this..it is nice that they are still endorsing that base line figure, but we were not pleased with that base line figure, and..we want to continue to talk over that project and also find out..as I said, exactly why we have not had more accurate information before, and make sure that..I notice they expressed to Gibbs and Hill the concern about

keeping proper management of that project, and that that is very important to staying with this base line figure, and .. anything else, Council?

GOODMAN: Yes, I would like to know how long it is going to take the management committee to make the assessments of the additional six months period for Unit 1 and Unit 2, and on the difference between the reserve and allowance figures.

HANCOCK: I can't speak for the other members, and of course, we only have 16% of the vote. Personally, I think we ought to be able to come down on that this month..late this month. Whether the other participants will concur with that, or not, there are some who would like to see some performance to ascertain performance in compliance with the base line. But , I am afraid we are always in the position where more information would be meaningful and helpful, and I think we need to take some action.

GOODMAN: So, if you have your way in the management commission, we will know by the end of this month whether or not the management committee fully concurs with these recommendations or not.

HANCOCK: Yes.

GOODMAN: And that may or may not happen.

HANCOCK: That's right.

DAVIDSON: Mayor, we really appreciate your calling the Council in session for this special report, and we also appreciate your inviting the Electric Utility Commission. We will pursue each of the points and questions that you have enumerated and help you line up the next work session just as soon as possible.

GOODMAN: I asked when the management committee was going to respond to these recommendations on the additional six months on both units and the additional amount for the reserve and allowances.

MAYOR: Yes, I need to jog my memory. R. L., another thing I would like for us to discuss in that work session is why the 2-year difference in that unit 1 and unit 2. I still never have gotten a complete explanation on that, and I want that to proceed..

HANCOCK: All right, I think Gibbs and Hill can speak very well to that.

MAYOR: Okay. Motion to adjourn.

GOODMAN: So move

MAYOR: Thank you all.

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#### ADJOURNMENT

Council adjourned its meeting at 12:40 P.M.

March 4, 1980

APPROVED

Carole Keeton McClellan  
Mayor

ATTEST:

Grace Monroe  
City Clerk